



The American Institute of Architects Statement for the Record

“Ways and Means Small Business and Pass-through Entity Tax Reform Discussion Draft”

U.S. House of Representatives
Committee on Ways and Means
Subcommittee on Select Revenue Measure
May 15, 2013

The American Institute of Architects (AIA) appreciates the opportunity to provide a statement to the Subcommittee on the impact of tax reform proposals on small businesses, and we commend the Committee for discussing this important issue.

The AIA has been the leading professional membership association for architects and allied partners since 1857. The AIA represents more than 81,000 architects and emerging professionals nationwide and around the world.

The AIA supports comprehensive tax reform that lowers marginal tax rates for individuals, pass-through entities, and corporations, while broadening the tax base and simplifying the tax code. We recognize that tax reform is a balancing act. Lowering tax rates will require curtailing or discarding many tax expenditures, while maintaining and improving a limited number of tax policies that support important policy objectives. We are hopeful that, at the end, tax reform is an opportunity to provide taxpayers with much-needed certainty, simplicity, and fairness, while at the same time encouraging economic growth and job creation.

U.S. architects are the leading edge of a design and construction industry that accounts for one in nine dollars of Gross Domestic Product. Every \$1 billion invested in design and construction creates 28,500 full-time jobs in a wide range of industries. In 2011 alone, the 17,500 architecture firms owned by AIA members grossed billings of \$26.0 billion, driving economic activity and job growth.

Architecture is by-and-large a small-business industry: most architecture firms at which AIA members work are small businesses. Approximately 97 percent of firms meet the Small Business Administration’s size standard definition of a small business and have fewer than 50 employees. Moreover, a significant portion of these firms are organized as pass-through entities, including partnerships and S corporations. Many architects operate as sole proprietors, including a large number who lost their jobs in the recent economic crisis and set up shop on their own.

In addition to architects, every day, nearly 70 million Americans go to work at small businesses organized as something other than a C corporation. These “flow-through” businesses, structured as S corporations, partnerships, LLCs, or sole proprietorships, represent 95 percent of all businesses, and they contribute more to our national income and our job base than all the C corporations combined.

Despite these contributions, recent press reports suggest that the Administration and some Members of Congress support budget-neutral legislation that would reform the tax code for C corporations only. The proposal would be to reduce the tax rate on C corporations and offset those lower rates by eliminating or reducing tax deductions and credits used by all businesses.

Two years ago, Ernst & Young studied what “budget neutral, corporate-only” tax reform would mean to pass-through businesses. According to the Ernst & Young study, this approach would increase taxes on pass-through job creators of all sizes by at least \$27 billion per year. In other words, corporate-only tax reform means lower taxes for large multinational corporations and higher taxes for small businesses like architecture firms.

“Corporate-only” tax reform would leave pass-through entities at a severe disadvantage, harming small businesses, including architecture firms. As Congress moves forward with tax reform, tax policies aimed at strengthening small businesses - including tax policies that maintain the ability of businesses to choose pass-through forms of entities -- should be preserved.

We appreciate the House Ways and Means Committee’s release of the Small Business Tax Reform Discussion Draft (“the Draft”). We continue to analyze the impact that the Discussion Draft’s proposals would have on AIA members.

In the meantime, we associate ourselves with the analysis of the Draft by the American Bar Association dated April 12, 2013 and echo its concerns over the implications of the proposed Option 2. Particularly, we are concerned that this new structure would burden our small businesses with paperwork and compliance costs. Also, the most likely result will be a general confusion over whether their firms are compliant with the new rules. Most small architecture firms do not have tax experts on staff, and would have to incur additional fees to comply. Adding more confusion to the code in this way runs counter to the goal of tax simplification.

The AIA urges Congress to preserve tax policies that are aimed at strengthening small businesses, reducing compliance burdens, and providing certainty. Such policies would help spur economic activity by helping small businesses expand operations and drive job creation by allowing small businesses to hire new workers and increase wages and benefits.

To that end, the AIA is very concerned that past proposals aimed at closing loopholes used by some lawyers and celebrities to avoid paying payroll tax, would force a massive tax increase on legitimate small businesses who file taxes as Subchapter S corporations.

The AIA vigorously opposes proposals that would wind up punishing the honest small businesses that follow the rules, reinvest their profits and create jobs. A much better way to stop abuse would be to have the IRS issue clearer guidance for S Corporation filers and give the agency broader authority to go after abusers.

We welcome the opportunity to provide this statement to the Committee and look forward to working with the Committee to foster an economic environment that helps small businesses grow our economy.